

**REPORT OF THE AUDIT OF THE  
FORMER BUTLER COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 28, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER BUTLER COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 28, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for the former Butler County Sheriff as of April 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$2,375,259 for the districts for 2005 taxes, retaining commissions of \$98,522 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,276,078 to the districts. Taxes of \$1,064 are due to the districts from the former Sheriff and refunds of \$2,060 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2005 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENTS AND RECOMMENDATIONS .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable David Fields, Butler County Judge/Executive  
Honorable Kenneth Morris, Former Butler County Sheriff  
Honorable Joe Gaddie, Butler County Sheriff  
Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the Butler County Sheriff's Settlement - 2005 Taxes as of April 28, 2006. This tax settlement is the responsibility of the former Butler County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Butler County Sheriff's taxes charged, credited, and paid as of April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Honorable Kenneth Morris, Former Butler County Sheriff

Honorable Joe Gaddie, Butler County Sheriff

Members of the Butler County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 21, 2007



BUTLER COUNTY  
KENNETH MORRIS, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 241,593	\$ 315,987	\$ 1,018,142	\$ 376,770
Tangible Personal Property	27,160	36,536	114,458	104,060
Intangible Personal Property				53,047
Fire Protection	2,465			
Franchise Taxes	23,861	32,333	100,356	
Additional Billings	142	159	598	895
Oil and Gas Property Taxes	1,764	2,180	7,437	2,752
Penalties	2,667	3,615	11,175	4,318
Adjusted to Sheriff's Receipt	<u>(181)</u>	<u>(202)</u>	<u>(757)</u>	<u>(297)</u>
Gross Chargeable to Sheriff	<u>299,471</u>	<u>390,608</u>	<u>1,251,409</u>	<u>541,545</u>
<u>Credits</u>				
Exonerations	1,872	2,323	7,890	12,862
Discounts	3,524	4,606	14,698	6,692
Delinquents:				
Real Estate	6,568	8,270	27,681	10,244
Tangible Personal Property	26	35	110	157
Delinquent Franchise Taxes	<u>33</u>	<u>45</u>	<u>138</u>	
Total Credits	<u>12,023</u>	<u>15,279</u>	<u>50,517</u>	<u>29,955</u>
Taxes Collected	287,448	375,329	1,200,892	511,590
Less: Commissions *	<u>12,504</u>	<u>15,952</u>	<u>48,036</u>	<u>22,030</u>
Taxes Due	274,944	359,377	1,152,856	489,560
Taxes Paid	274,773	358,774	1,151,562	490,969
Refunds (Current and Prior Year)	<u>209</u>	<u>239</u>	<u>881</u>	<u>326</u>
Taxes Due Districts or		**		
(Refunds Due Sheriff)	<u>\$ (38)</u>	<u>\$ 364</u>	<u>\$ 413</u>	<u>\$ (1,735)</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

BUTLER COUNTY  
KENNETH MORRIS, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
April 28, 2006  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,164,367
4% on	\$	1,200,892

\*\* Special Taxing Districts:

Library District	\$	84
Extension District		(97)
Health District		(162)
City of Rochester		347
City of Woodbury		220
Big Reedy Watershed		(2)
Caney Creek Watershed		(2)
Big Muddy Watershed		(18)
Mud River Watershed		(6)
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Due Districts or (Refunds Due Sheriff)	\$	<u>364</u>
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BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENT

April 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 28, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 7, 2005 through April 28, 2006.

Note 4. Interest Income

The former Butler County Sheriff earned \$873 as interest income on 2005 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The former Butler County Sheriff collected \$17,409 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Butler County Sheriff collected \$1,360 of advertising costs and \$15 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Fields, Butler County Judge/Executive  
Honorable Kenneth Morris, Former Butler County Sheriff  
Honorable Joe Gaddie, Butler County Sheriff  
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Butler County Sheriff's Settlement - 2005 Taxes as of April 28, 2006, and have issued our report thereon dated June 21, 2007. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Butler County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Butler County Sheriff's Settlement - 2005 Taxes as of April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month

This report is intended solely for the information and use of management, the Butler County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 21, 2007



## COMMENTS AND RECOMMENDATIONS



BUTLER COUNTY  
KENNETH MORRIS, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 28, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month

The former sheriff did not deposit all tax collections when received or report and distribute tax collections by the tenth of the next month after receipt. The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements which include depositing receipts intact on a daily basis. In addition, KRS 134.300 requires the Sheriff to report and distribute to the taxing districts taxes collected during the preceding month. The former Sheriff did deposit, report, and distribute all regular tax collections as required. However, as noted below, tax collections for oil, additional supplemental and franchise tax bills were not deposited when the tax bills were collected and the subsequent reports and distributions to the taxing districts were not made by the tenth of the next month. Franchise tax collections were frequently held until the end of the month before being deposited.

<u>Tax Category</u>	<u>Month of Collection</u>	<u>Date Deposited</u>	<u>Date Distributed</u>
Oil	February 2006	05/12/2006	5/22/2006
	March 2006	05/12/2006	5/22/2006
Gas	February 2006	05/12/2006	5/22/2006
Additional Supplemental	October 2005	05/22/2006	5/22/2006
	November 2005	05/22/2006	5/22/2006
	April 2006	05/22/2006	5/22/2006
Franchise	April 2006	05/18/2006	5/18/2006

*Former Sheriff's Response: No Response.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our audit we noted the former Sheriff's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. We note the following compensating controls could have been implemented to offset this internal control weakness:

- Surprise cash counts by official.
- Official should have agreed monthly tax reports to receipts ledger and disbursements ledger.
- All disbursement checks should have been signed by two people; one being the official.
- Official should have examined the tax distribution prepared by another employee.
- Official should have delivered tax distribution checks and monthly tax reports to taxing districts.

*Former Sheriff's Response: No Response.*

